

AR27

ANNUAL REPORT

For Year Ending
31 December 1974

PHOENIX CANADA OIL COMPANY

LIMITED

Phoenix Canada Oil Company Limited

Incorporated in Ontario, Canada, 25 November 1944

Directors	S. DONALD MOORE CHARLES S. PAYSON JASON GOULD JOHN A. MURPHY	Toronto, Canada New York, New York Irvington-on-Hudson, New York Scarborough, Canada
Officers	S. DONALD MOORE JOHN A. MURPHY	President Secretary-Treasurer
Operating Offices	EXECUTIVE OFFICES	700 — 15 Toronto Street Toronto, Canada M5C 2E3
	WESTERN CANADA	502 — 630 - 8th Avenue, S.W. Calgary, Canada T2P 1G6
	UNITED STATES	437 Madison Avenue (17th Fl.) New York, New York 10022
Banking	THE ROYAL BANK OF CANADA MAIN BRANCH and MAIN BRANCH	Toronto, Canada Calgary, Canada
Stock Exchange Listing	MONTREAL STOCK EXCHANGE	
Transfer Agents	GUARANTY TRUST COMPANY OF CANADA	88 University Avenue Toronto, Canada
Auditor	HARBINSON, GLOVER & CO.	Toronto, Canada
Capitalization	AUTHORIZED	5,000,000 Shares (\$1.00 par value)
	ISSUED	2,021,856 Shares

The contents of this Report is intended to inform present Shareholders about the Company and its operation. It is not an offer of sale or a solicitation of an offer to buy securities unless preceded or accompanied by a current Prospectus which contains information concerning the Company and on any current public offering of its securities.

phoenix canada oil company limited

STATEMENT OF OIL PRODUCTION INCOME AND SOURCE AND APPLICATION OF FUNDS

For the Six-Months Ended 30 June 1974
(With Comparative Figures for the Period 30 June 1973)
(Prepared from Company Records without Audit)

	30 June 1974	30 June 1973
STATEMENT OF OIL PRODUCTION INCOME (Estimated — NOTE 1)		
Gross Operating Revenue	\$2,570,000	\$1,261,361
Less: Operating Expenses; Pipeline Tariffs	72,300	114,520
Net Operating Revenue	\$2,497,700	\$1,146,841
Provision For Ecuador Taxation (Income, Export, Port, Pipeline and Exchange)	\$2,260,427	\$1,015,278
Net Oil Production Income	✓ \$ 237,273	✓ \$ 131,563
SOURCE OF FUNDS		
Net Oil Production Income (Per Statement Above)	\$ 237,273	\$ 131,563
Interest and Dividends	436	44
Reduction of Non-Current Receivable	—	197
Bank Loan	—	50,000
	\$ 237,709	\$ 181,804
APPLICATION OF FUNDS		
Exploration, Development and Administrative Expenses	\$ 46,803	\$ 17,011
Advances to Associated Ecuador Companies	75	22,289
Purchase of Fixed Assets	80	—
Repayment of Bank Loan	—	50,000
	\$ 46,958	\$ 89,300
Increase or (Decrease) in Working Capital	\$ 190,751	\$ 92,504
Working Capital at Beginning of Period	(14,205)	12,090
Less: Transfer of Deferred Loan Payable to Current Loan Payable	—	(53,000)
Working Capital at End of Period	\$ 176,546	\$ 51,594
Represented by:		
Current Assets	\$ 291,276	\$ 173,461
Current Liabilities	114,730	121,867
	\$ 176,546	\$ 51,594

NOTE 1 — The failure of Texaco-Gulf to provide production accounting statements for the period under review required that the Company estimate gross production revenues and operating expenses, including taxation. Texaco-Gulf employed "West Texas sour crude" prices for the Fourth Quarter 1973 (\$2.564/bbl vs \$6.62 weighted average reference price) and for the First Quarter 1974 (\$2.648/bbl vs \$13.90 reference price). If adjusted to reflect prevailing Ecuador oil prices, gross revenues of approximately \$4,000,000 (exclusive of Fourth Quarter 1973 adjustments), along with materially increased net production income, would have been reported for the 6-months under review.

AR27

Conway

interim shareholder report
for the six months ended 30 June 1974

phoenix canada oil company limited

suite 400 • 8 king street east • toronto • canada • MSC 1B5

to PHOENIX shareholders:

Financial Notes

The improved interim financial results reported herein do not reflect prevailing Ecuador oil prices (see Note to 6-months statement). For several Quarters Texaco-Gulf unilaterally applied "West Texas sour crude" oil prices which, when adjusted to give effect to prevailing Ecuador prices as required by Ministerial Regulations, will result in materially increased gross production revenues and net income.

Our strengthening financial condition establishes capability for corporate expansion. Excess foreign business income taxes paid in Ecuador comprise an interesting, growing long-term asset by way of credits against future taxable income. Promising industrial investments benefitting from Ecuador's vigorously growing economy, fueled by oil export revenues, are available on special conditions for the profitable employment of our Ecuador funds.

Ecuador Developments

OPEC's decision to rigidly support current oil prices should maintain Ecuador prices at \$13.90 (basis 30° crude). The Ecuadorian Government has just approved expansion in pipeline capacity from the current 250,000 BOPD to 350,000 BOPD. Based on reported development drilling, a major percentage of any increased Texaco-Gulf throughput should derive from the Coca Contract area and benefit our production payment interest. Anglo-Ecuadorian has announced new drilling plans on their holdings immediately south of Coca.

Canadian Arctic Islands Activity

Panarctic's 3-mile stepout to the Cameron Island-Bent Horn discovery, the Arctic Island's best oil find to date, which tested over 600 BOPD of light high-grade oil, will spud shortly within 25 miles of our 830,842-acre block of working and royalty interests on Northwest Bathurst Island. Informed sources report that later this year the rig may move to drill one of the several known large structures on Northwest Bathurst.

Nigeria Interest

During August, Philips started a two-well wildcat program on Gilli Gilli Lease OML96 (109,252 acres) in which we hold a 0.31325% gross royalty interest. Two undeveloped fields await pipeline connection — Gilli Gilli and Gilli Gilli North, with proven high gravity (49° - 50.4°) low-sulphur reserves. Gilli Gilli adjoins Pan Ocean acreage on which their major Ogharefe discovery is located. Nigerian oil prices at \$14.69 (basis 34° crude) indicate interesting income prospects here.

Nuclear Stimulation Project

Commercial prospects for our proprietary Lindsley-Northfield nuclear stimulation project improve with increasing recognition of the serious problem posed by Canada's rapidly declining conventional oil reserves-life index, now under 10 years. Through appropriate Federal, Provincial and international political channels, Phoenix Management is pursuing requisite financing and approvals for a test detonation within the subsurface heavy oil sands of Northeastern Alberta. Nuclear stimulation provides thermal and shock energy to the viscous heavy oil formation to enhance commercial production of otherwise unrecoverable heavy oil reserves, presently estimated at upwards of 600-billion barrels. The nuclear detonation also benefits the secondary and tertiary recovery techniques, steam injection and firefloods.

The recent Federal elections, and the current Edmonton-Ottawa resource tax confrontation, both distracting official attention, has delayed progress at the political level. We are currently developing statutory liaison with the USAEC, through the State Department, External Affairs Department and Canadian nuclear energy authorities, to establish access to USAEC "hardware" developed for the nearly 300 successful underground nuclear detonations (excluding the USSR) since 1957.

Economic recovery of Canada's vast heavy oil reserves must in time become a matter of North America's energy survival. We foresee political capital being made later this decade out of hindsight views that earlier action should have been taken to develop in-situ heavy oil recovery techniques. The terms of reference establishing the \$100-million Alberta Oil Sands Technical and Research Authority recognize this urgent need.

Recent Developments

Following extended negotiations, we are informed that Phoenix proposals on a multi-million acre oil exploration license have been accepted. Final contracts are expected by October. Our geological evaluations indicated interesting, previously overlooked, prospects in this secure, stable political jurisdiction.

Negotiations continue on several interesting gold developments, including one affecting the Company's long held 18 patented mining leases at Snow Lake, Manitoba. Deep drilling is required to prove the continuation at depth of an adjacent gold-bearing structure, mined in the 1950's.

Submitted on Behalf of the Board:
by: S. DONALD MOORE, President

30 August 1974

To The Shareholders:

Press reports have covered the Company's lawsuit against Texaco, Inc., Gulf Oil Corporation and their Ecuador subsidiaries, filed 23 June 1975 in the United States District Court, Southern District of New York (75 Civil 3052). It is inappropriate to comment further. The following official Press Release is reprinted for Shareholder information and background:

"Toronto, June 24. . . Phoenix Canada Oil Co. Ltd. has sued Texaco Inc., Gulf Oil Corp. and their Ecuador subsidiaries in New York Federal Court for accountings, breach of contract and damages aggregating over \$600-million. Phoenix also seeks punitive damages of \$500-million. Phoenix alleges that the defendants engaged in a conspiracy that effectively destroyed its 1% gross royalty interest in about 4-billion barrels of Ecuador oil reserves currently producing over 200,000 barrels per day.

"Phoenix's gross royalty derives from 1963 agreements on the Ecuador oil concession originally acquired by Norsul Oil & Mining Ltd. of Albany, Georgia, in 1961. Norsul holds a similar 1% gross royalty but is not a party in the current lawsuit.

"In 1965, Texaco and Gulf acquired part of the original concession area, subject to the 2% gross royalty reserved to Phoenix and Norsul. The first oil discovery on royalty lands, Shushufindi No. 1, was completed in January 1969. The discovery well tested at over 5,000 barrels per day.

"From 1969, after it became apparent that major oil reserves had been discovered on the royalty lands, Phoenix alleges that the defendants developed and implemented a conspiracy to eliminate or impair its gross royalty interest, to destroy Phoenix as a going concern and to remove Phoenix as a competitor in Ecuador and elsewhere. In 1973, Ecuador's OPEC membership recognized the major reserves developed by Texaco and Gulf.

"Oil trade journals report Ecuador oil reserve estimates exceeding 5-billion barrels. Based on field production potentials, about 80% of Texaco and Gulf's Ecuador reserves are indicated as subject to the Phoenix royalty. Lawsuit damage claims are determined on about 4-billion barrels of oil reserves subject to the 1% gross royalty. Since January 1974, Ecuador's reference price for their low sulphur, high quality crude has been \$13.90 per barrel, basis 30° gravity crude.

"Phoenix alleges that the Texaco-Gulf campaign to destroy its royalty interest accelerated in 1972, when a new military government replaced the civilian administration. In May 1972, on a popular Ecuador television program and in other news media, Phoenix alleges that the defendants falsely and maliciously attacked the original 1962 concession and its gross royalty under the 1965 Texaco-Gulf agreement. The television attack was made by the Assistant General Manager of Texaco's Ecuador operations.

"Texaco and Gulf completed the 300-mile Trans-Ecuadorian pipeline from the newly discovered jungle oilfields to the Pacific coast in August 1972. Phoenix alleges that the defendants then stalled on royalty payments until July 1973, when a special, selective 86% income tax was imposed.

"Phoenix claims that the defendants aim was the complete destruction of their royalty interest and alleges that the defendants offered to pay the entire royalty directly to Ecuador as additional taxation. The defendants would substantially benefit from such imposition of direct taxes to replace the royalty obligation. Direct taxes are deductible expenses and a valuable foreign tax credit under U.S. tax law.

"Anti-trust violations under the Sherman Act and Wilson Tariff Act are alleged in the Complaint. If Phoenix prevails in Court, this would result in the trebling of the more than \$600-million in damages claimed."

The Company will vigorously prosecute this action. Pre-trial procedures are being pursued with dispatch. To this end, and simultaneously with the Complaint, Interrogatories concerning documents have already been served on Defendants.

Pursuant to a decree dated 3 June 1974 (see Financial Statements), Texaco-Gulf production payments under the July 1965 Agreement are made directly to the Central Bank for disbursement. Our Second and Third Quarter 1974 payments were completed on schedule by the Central Bank. Fourth Quarter 1974 and First Quarter 1975 payments are receivable from the Central Bank, as are adjustments from Texaco-Gulf for the Fourth Quarter 1973 and First and Second Quarters 1974, when Texaco-Gulf employed the much lower "West Texas sour crude" price to calculate our production payment.

Our Ecuador production now derives from about 97 wells; 59 in Sacha Field (average April production 1,135 bbls/day), 9 in Auca Field (average April production 1,195 bbls/day) and about 29 wells in Shushufindi Field (average April production 2,908 bbls/day). Production varied widely during the year due to recessionary world oil market conditions. Latest official figures (April 1975) report 206,245 bbls/day pipeline throughput. The official reference price remains \$13.70/bbl (basis 28° gravity) — over \$13.90 for the approximate 30.4° gravity low-sulphur Ecuador crude.

Canadian Arctic Islands Interests

Remote non-prospective holdings (1,044,008-acres) were relinquished during the year ending June 1975. PHOENIX retains interests in 1,557,099 gross acres, within several Arctic Island geological provinces — including working interests (largely 6.8%) in 726,262 acres, largely on Ellef Ringnes and Ellesmere Islands and royalty interests (1.625% in 126,564 acres and 1.0% in 704,273 acres) in 830,837 acres in the currently active, oil-prospective Northwest Bathurst area.

In January, PHOENIX assigned its working interests in 704,273 acres on Northwest Bathurst to Union Oil of Canada, reserving a 1% gross royalty (subject to 50% reduction in the now unlikely event that future Crown royalty exceeds 20%). Royalty interests in 830,837-acres are now maintained at no operating cost commencing about 20 miles from the April 1974 Bent Horn oil discovery (500 bbls/day @ 10,555 ft. — high-quality light oil from a Devonian reef reservoir). The Bent Horn follow-up is now drilling (reported @ 7,890 ft. on June 30), projected to 11,000 ft. Confirmatory seismic work at Bent Horn located the discovery as an edge well, with interesting prospects for the current step-out, higher on structure.

Not including joint interest partner expenditures, Panarctic has spent \$126,000,000 through 1974. In 1974, about \$56,000,000 was spent on Panarctic lands alone, more than half financed by partners. Given the admittedly long-term payout, these impressive commitments are the best evidence of confidence in the viability of the Arctic oil play. In addition to Bent Horn, five separate commercial gas finds, with indicated reserves exceeding 10-trillion cubic feet, have established excellent reservoirs, uniformly good porosity and high permeability. Absolute open flow rates range from 96 to 410 million cu. ft./day, indicating exceptional deliverability. Our residual interests in 1,557,099-acres establish a continuing long-term participation at minimum cost. Arctic operators accept the

optimistic estimate of that foremost Arctic Islands pioneer, the late Dr. J.C. Sproule, who suggested that "the Arctic Islands encompass the largest single known undeveloped oil basin in the Western Hemisphere."

Nigeria Royalty Interest

PHOENIX maintains its 35.7999% of 1% of 7/8 (0.31325% of gross) royalty interest in the Phillips Petroleum-operated 109,252-acre Nigeria Lease OML 96. This lease block contains two field discoveries — Gilli Gilli, which tested 2,400 bbls/day of 50.4° high quality, low-sulphur, light oil and 6.85 million cu.ft./day at 6,700 ft.; the confirmation well flowed 1,104 bbls/day of 49° oil and 552 bbls/day of 35.6° oil. The Gilli Gilli North field discovery tested 672 bbls/day of 49° high quality, light crude at 7,200 ft.

Pan Ocean is now completing its fifth well in the promising Ogharefe Field, about 10 miles southeast of the Gilli Gilli block. The discovery tested 8,000 bbls/day and two development wells in excess of 14,000 bbls/day each. With Ogharefe production established from well below 10,000 ft., interesting depth prospects may underlie our royalty acreage. Pan Ocean recently announced construction plan for a 50,000 bbls/day pipeline, with throughput scheduled for mid-1976. Extension to Gilli Gilli appears feasible and possible. With Nigerian oil prices for their premium crude maintained at \$14.69/bbls (basis 34° crude), our royalty income potential is interesting.

Nuclear Stimulation — Heavy Oil Recovery System

This month, U.S.S.R. nuclear scientists officially reported successful subsurface nuclear detonations stimulating important new oil production from an older field previously depleted by conventional production methods. The detonations reportedly increased recoveries up to 50%, while in another existing field, with production limited by tight formations, production rates improved by 150%. The reported tests were conducted in 1971. After several years of monitoring both oil production improvement and safety matters, the officials were able to report that "the amount of oil flowing from the nuclear-detonated wells ran to hundreds of millions of tons and had proved free of radioactivity." Furthermore, the detonations, which affected the oil formations for up to 850 yards from the point of detonation, did not pollute or otherwise affect ground water resources being used on surface. Nuclear devices employed in oilfield stimulation are miniatures; less than 1% the yield of weapons devices regularly and successfully detonated at the Nevada Proving Ground.

PHOENIX holds a 70% interest in Canada Patent 774,931 (Utilization of Nuclear Energy; issued 2 January 1968). Thayer Lindsley and Northfield Mines, Inc. hold the remaining 30%. In addition to subsurface heavy oil recovery, the patent covers stimulation of natural gas flows in tight formations and the economic mining of low grade metallic minerals. Initial emphasis is on nuclear stimulation of the subsurface heavy oil deposits of Northeastern Alberta. Less than 5% of the estimated 600-billion barrels of heavy oil reserves are recoverable, and only under optimum economic conditions, by conventional surface mining techniques. The \$100-million Alberta Oil Sands Technical and Research Authority will shortly accept formal proposals

for funding new approaches to the problem of subsurface heavy oil recovery.

PHOENIX is preparing patent applications expanding the basic proprietary technology through our "elbow room" concept — utilization of the nuclear cavity to facilitate conventional secondary and tertiary in-situ heavy oil recovery techniques, including steam injection and firefloods. Each succeeding recovery method will benefit from increasingly improved access to the heavy oil formation. The "elbow room" provided by the estimated 150-ft. diameter nuclear cavity will expose a greatly expanded oil formation surface to receive the necessary energy — thermal, seismic and pressure — to start and maintain commercial viscous oil flows.

Monumental political, environmental, economic and technical concerns must be satisfied prior to our initial test detonation. The Atomic Energy Control Board advised that the Government "is not prepared to approve, at this time, your proposal to test nuclear explosives in the Athabaska Tar Sands." Given the 10-13 year reserves-life index of Canada's conventional oil reserves, it is clear that we must eventually find acceptable techniques to economically recover the vast subsurface heavy oil reserves. All new energy developments — nuclear, coal, lignites, oil sands mining, hydropower — have an "environmental cost." Inaction also has serious "environmental costs" — Canadians "freezing in the dark" — or destructive balance of payments deficits to finance foreign oil imports.

Recent Developments

The Company is negotiating a position in the research and development of a special proprietary approach to uranium enrichment — designated "Uranium Laser Isotope Separation Capability" — for the electric utility sector. Successful laser separation techniques will result in a substantial reduction in uranium enrichment production costs, in both capital requirements and energy loss. Enriched uranium is created by concentrating the more readily fissionable uranium isotope U-235 for power reactor use. If agreements are concluded, PHOENIX would hold the controlling interest in Canadian rights and a substantial minority interest in United States operations. It is planned to interest public and private research bodies in the earliest stages of this work.

The Company maintains the good standing of 18 patented Mining Leases comprising its original Snow Lake, Manitoba gold prospect. We are evaluating the technical and economic feasibility of employing current geophysical techniques to locate copper indications, based on our location in a complex mineralized environment that is host to several nearby high-grade copper mines, including the Stall, Anderson, Ghost and Chisel Mines, all within 5 miles of our Leases, the Osborne Mine 10 miles east and the Wim Lake Mine 7 miles north.

Our proposals on a multi-million acre foreign oil exploration licence, accepted last year, await new legislation, nearing completion. Our preliminary geological evaluations indicated interesting, previously overlooked, hydrocarbon prospects in this secure and stable political jurisdiction.

Submitted on Behalf of the Board:

30 June 1975

by: S. DONALD MOORE, President

NOTES TO FINANCIAL STATEMENTS AS AT DECEMBER 31, 1974

1. Accounting policies.

The company has followed the policy of deferring all exploration, development and administration expenses to the commencement of production. As the company is now receiving income from its 1% Production Payment Interest in the Texaco-Gulf Coca Contract, Ecuador, exploration and other costs of \$11,379 have been written off together with \$9,375 of administration expenses. Interests in other petroleum and natural gas rights and mining properties are carried at cost and are not intended to reflect present or future value.

2. Ecuador interests.

The company's Production Payment Interest derived from the Texaco-Gulf Contract of 16th July 1965 has been defined and established pursuant to Ecuador Ministerial Resolution No. 11927, dated June 3, 1974. Among material provisions affecting the company's gross Ecuador oil production payments are:

- (a) that Texaco-Gulf complete quarterly production payments to the Banco Central del Ecuador within 8 days of the end of each quarter; delays being subject to interest penalties;
- (b) the quarterly production payments shall be based on the Tax Reference Price established from time to time by the Ecuador government;
- (c) that the volume of crude oil production on which the company's production payments shall be based is established as gross oil production from the Coca Concession Contract area, less only such produced crude oil consumed in normal operations or through evaporation and for pipeline losses.

3. Pursuant to Ecuador Ministerial Resolution 11927 the company is required to invest 50% of the net income in Ecuador in approved development projects. As at December 31, 1974, \$US 186,613 is held on deposit in a special company account at the Banco Central del Ecuador.

4. During the year, 100,000 treasury shares, reserved as to 60,000 shares pursuant to the Management Incentive Stock Option Plan of April 17, 1964 and as to 40,000 shares in consideration of the acquisition of 15 Arctic Island Permits aggregating 493,215 acres and other value received in 1965, were issued following the repeal of the U.S. Interest Equalization Tax.

5. Payments to Officers and Directors.

During 1974 the company paid \$23,400 to officers and directors for services rendered. No remuneration was paid to directors for their services as directors.

6. Income taxes.

Due to payment of direct Ecuador income taxes pursuant to Supreme Decree No. 602, dated May 29, 1973 and published in the Official Register of June 4, 1973, the company has no Canadian income tax payable for 1974. The excess of foreign business income tax paid during the year has established a foreign business income tax credit.

7. Contingent liability.

The company has been joined as a co-defendant in a legal action claiming reimbursement of certain expenses and other claims. The action is at an early stage and no opinion can be expressed as to the outcome of this action. However, counsel advises that if the facts as provided to him are accepted, the action will not succeed as against the company.

ASSETS

	1974	1973
Current:		
Cash and deposit receipts	\$ 103,630	\$ 36,800
Marketable securities, at cost (market value 1974 — \$9,834; 1973 — \$11,082)	8,253	8,253
Accounts and deposits receivable (Note 3)	225,970	46,997
Prepaid expenses	19	65
	<u>337,872</u>	<u>92,115</u>
Deposits	<u>4,098</u>	<u>4,098</u>
Shares and advances in other companies:		
Shares, at cost	1,000	1,000
Advances	57,208	57,072
	<u>58,208</u>	<u>58,072</u>
Fixed, at cost:		
Interests in petroleum and natural gas permits and/or leases	101,812	101,812
Mining properties	115,001	115,001
Furniture and fixtures, less accumulated depreciation	1,356	1,320
	<u>218,169</u>	<u>218,133</u>
Deferred:		
Organization expenses	3,770	3,770
Exploration, development and administration expenses	311,025	323,781
	<u>314,795</u>	<u>327,551</u>
	<u>\$ 933,142</u>	<u>\$ 699,969</u>

LIABILITIES

Current:		
Accounts payable and accrued liabilities	\$ 9,698	\$ 106,320

SHAREHOLDERS' EQUITY

Capital stock (Note 4):		
Authorized: \$5,000,000 divided into 5,000,000 shares of \$1 each		
Issued and fully paid:		
2,021,856 shares	2,021,856	2,021,856
Less: Discount thereon	1,696,096	1,696,096
	<u>325,760</u>	<u>325,760</u>
Surplus	597,684	267,889
	<u>\$ 933,142</u>	<u>\$ 699,969</u>

Approved on behalf of the Board:

S. DONALD MOORE
Director

JOHN A. MURPHY
Director

AUDITORS' REPORT

To the Shareholders of
Phoenix Canada Oil Company Limited.

We have examined the balance sheet of Phoenix Canada Oil Company Limited as at December 31, 1974 and the statements of earnings and retained earnings, exploration, development and administration expenses and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. The comparative figures contained herein were reported on by the previous auditor, deceased during the year.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1974 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
June 26, 1975.

Harbison, Glover & Co.
Chartered Accountants.

STATEMENT OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1974
(with comparative figures for the previous year)

	1974	1973
Foreign (Ecuador) gross operating revenues from oil production	\$6,130,521	\$2,212,734
Less: Direct operating expenses: — Pipeline tariffs	<u>105,655</u>	<u>183,620</u>
	6,024,866	2,029,114
Less Foreign (Ecuador) charges and taxation, including income and export taxes, port and pipeline taxes and foreign exchange charges	<u>5,608,184</u>	<u>1,804,910</u>
Net oil production income	<u>416,682</u>	<u>224,204</u>
Less:		
Administration and general expense	75,038	40,239
Depreciation	414	350
Deferred Ecuador expenses written off and amortization of administration expense	<u>20,754</u>	<u>20,754</u>
	96,206	61,343
Net operating income	320,476	162,861
Net investment income	<u>9,319</u>	<u>—</u>
Net income before extraordinary item	329,795	162,861
Extraordinary item:		
Settlement of litigation on incentive option on 40,000 shares	<u>—</u>	<u>110,000</u>
Net income for year	<u>\$ 329,795</u>	<u>\$ 52,861</u>
Earnings per share	<u>16.56 cents</u>	<u>2.61 cents</u>

STATEMENT OF EXPLORATION, DEVELOPMENT AND ADMINISTRATION EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1974

	Mining Claims	Oil and Gas Leases	General	Total
Balance, beginning of year	\$54,048	\$185,355	\$84,378	\$323,781
Additions during year	<u>180</u>	<u>7,818</u>	<u>—</u>	<u>7,998</u>
	54,228	193,173	84,378	331,779
Less: Amortization	<u>—</u>	<u>11,379</u>	<u>9,375</u>	<u>20,754</u>
Balance, end of year	<u>\$54,228</u>	<u>\$181,794</u>	<u>\$75,003</u>	<u>\$311,025</u>

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1974
(with comparative figures for the previous year)

	1974	1973
Balance, beginning of year	\$267,889	\$215,028
Net profit for year	329,795	52,861
Balance, end of year	<u>\$597,684</u>	<u>\$267,889</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1974
(with comparative figures for the previous year)

	1974	1973
Working capital derived from:		
Net income	\$329,795	\$ 52,861
Non-cash items	<u>21,168</u>	<u>21,104</u>
	350,963	73,965
Working capital applied to:		
Exploration and development expenses	7,998	26,627
Repayment of loan	—	53,000
Advances to associated companies	136	19,624
Purchase of fixed assets	450	709
Deposit re legal costs	<u>—</u>	<u>300</u>
	8,584	100,260
Decrease in working capital	342,379	26,295
Working capital (deficiency) beginning of year	<u>(14,205)</u>	<u>12,090</u>
Working capital (deficiency) end of year	<u>\$328,174</u>	<u>(\$14,205)</u>

